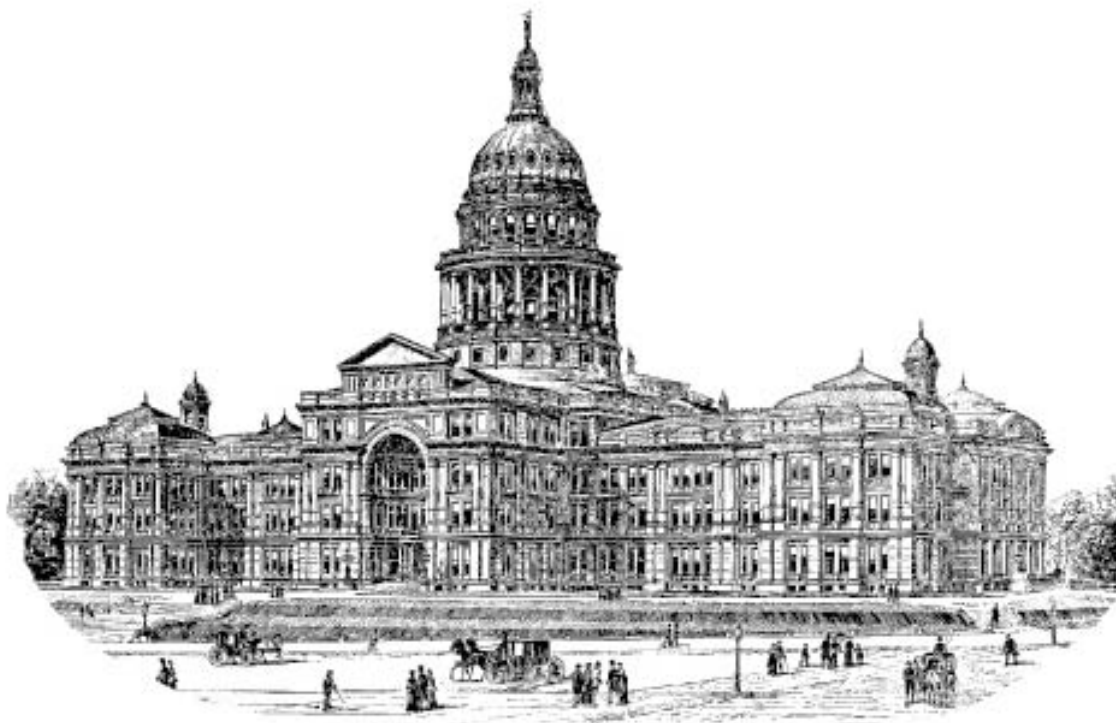




# INTERIM REPORT

## TO THE 83RD TEXAS LEGISLATURE

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Select Committee on Economic Development



Select Committee on Economic Development  
February 5, 2013

Morris Foster  
Chairman

The Honorable Joe Straus  
Speaker, Texas House of Representatives  
Members of the Texas House of Representatives  
Texas State Capitol, Rm. 2W.13  
Austin, Texas 78701

Dear Mr. Speaker and Members:

On behalf of the Select Committee on Economic Development, I hereby submit the interim report for consideration by the Eighty-Third Texas Legislature. In fulfillment of the committee's charges, the committee evaluated existing incentives and policies, and submits recommendations regarding state and local economic development incentives.

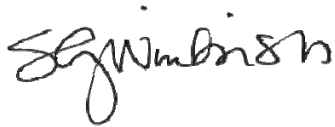
While other states are working aggressively to attract new investment through creative economic initiatives, Texas has established itself as a frontrunner in national economic development, both in policy and in practice. This report is to ensure that Texas' successful programs and history of job creation are evaluated and coordinated to be most effective.

Copies of the report will be provided to the Governor, Lieutenant Governor, the Speaker, and each member of the Texas Legislature. Thank you for your continued leadership and support.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Morris", with a small dot above the final "i".

**Morris Foster**  
Chairman



**Stacey Gillman Wimbish**



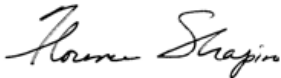
**Carlton Schwab**



**Representative John  
Davis**



**Andrew H. Card Jr.**



**Senator Florence  
Shapiro**



**Brint Ryan**



**Maher Maso**



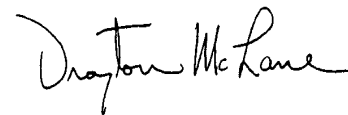
**Representative Angie  
Chen Button**



**Charles W. Matthews**



**Senator Bob Duell**



**Drayton McLane**

## SELECT COMMITTEE ON ECONOMIC DEVELOPMENT

In May of 2011, Texas Governor Rick Perry signed House Bill 2785 (HB 2785), authored by Representative John Davis and sponsored by Senator Florence Shapiro, into law creating the Select Committee on Economic Development.

This committee was established to recommend economic development policy for the state of Texas as well as to make recommendations regarding state and local economic development incentives.

### SELECT COMMITTEE MEMBERS

#### Governor Perry Appointees

**Chair Morris Foster** is the former President of ExxonMobil Production Company in Houston, Texas, Morris Foster now serves as chairman of Stagecoach/Millcreek Resort and is a regent of the Texas A&M University System. A native of Belton, Texas, he received his bachelor of science degree in mechanical engineering from Texas A&M University. Upon graduation, Foster joined Exxon and served in a number of production engineering and management assignments in California, Louisiana, and Texas. Foster is on the board of Scott & White Medical Institute, United Way of the Texas Gulf Coast, Greater Houston Partnership and First State Bank of Temple, Texas. He is also a member of the American Petroleum Institute, the Society of Petroleum Engineers and the Texas Oil & Gas Association. He currently serves on the board of the University of Texas Investment Management Corporation (UTIMCO).

**Stacey Gillman Wimbish** is president of Gillman Companies. She is chairman of the Texas Automobile Dealers Association, a member of the National Automobile Dealers Association and Subaru of America National and Regional Dealer Council, a certified member of the Association of Finance and Insurance Professionals, and past chairman of the Houston Automobile Dealers Association. She is also underwriter for the Ramsay Gillman Charitable Golf Tournament. Gillman Wimbish attended the University of Texas, and is a graduate of the General Motors Marketing Educational Services Dealer Management program and National Automobile Dealer Association Dealer Candidate Academy.

**Maher Maso** is mayor of the City of Frisco and manager of Maso Asset Management. He is a member of the National League of Cities, and the league's Community and Economic Development Steering and International Council committees and Youth Participation Advisory Network. He is also a member of the U.S. Conference of Mayors, Dallas Regional Mobility Coalition and the North Texas Commission, and a board member and past chairman of the Collin College Education Foundation. He is a member of the Regional Transportation Council, International Conference of Shopping Centers, Metroplex Mayors Association, Mayor's Youth Council and the Memorial Day Committee, and chair of the Team Frisco NCAA Division I Football Local Organizing Committee. Maso received a bachelor's degree from the University of Phoenix and a Master of Business Administration from the University of Texas at Arlington.

**Carlton Schwab** is president and CEO of the Texas Economic Development Council. He is a member of the Southern Economic Development Council, Texas Legislative Conference Advisory Committee, and a member and chair of the International Economic Development Council State Associations Committee. He is also a member of the Austin College Athletic Lettermen Association, a past member of the Austin College Alumni Board and Texas Wine Industry Advisory Board. Schwab received a bachelor's degree from Austin College and a Master of Public Affairs from The University of Texas LBJ School of Public Affairs.

### **Speaker Straus Appointees**

**Representative Angie Chen Button** is currently serving her second term as State Representative. She represents District 112, serving on the House Appropriations Committee and as the vice chair of the Technology Committee. She represents District 112 which includes parts of Richardson and Garland in Dallas County. Rep. Button has worked for Texas Instruments (TI) since 1981, promoting American products internationally as a Marketing Manager. She is also a CPA with a master's degree in public finance and management sciences. Before her election to the Texas House in 2008, Rep. Button had a long record of public service and community involvement in the Metroplex. She was a member of the Dallas Area Rapid Transit (DART) Board and an executive committee member of the Dallas Regional Mobility Coalition (DRMC). She served in leadership positions with chambers of commerce, a citizen coalition, and for other civic and non-profit organizations. She has also been part of the Dallas Assembly, the Dallas Summit, and the Women's Museum Advisory Board.

**Representative John Davis** was elected to the Texas Legislature in 1998 to represent House District 129. Rep. Davis serves on the Energy Resources Committee and as chair of Economic and Small Business Development. A native of Houston and a fifth-generation Texan, Rep. Davis graduated from Baylor University in 1982 and University of Houston-Clear Lake in 1987. He is the past President of Oates Industries, an industrial roofing company; he now serves as an independent manufacturer representative for RPM, a roof and wall restoration company. Rep. Davis belongs to the Clear Lake Area Chamber of Commerce, Pasadena Rotary Club, University Baptist Church in Clear Lake, and the Pasadena Salvation Army Advisory Board.

**Charles W. Matthews** served as vice president and general counsel for ExxonMobil until 2010, overseeing legal affairs in all 50 states and in offices in 40 countries worldwide. He serves on the board of the Center for American and International Law and was a past chairman of its executive committee. He also serves as vice chairman of the Texas Cultural Trust. Texas Lawyer magazine recently named Matthews one of the 25 greatest lawyers of the past quarter century.

**Andrew H. Card Jr.** is acting dean of The Bush School of Government & Public Service at Texas A&M University, and serves on the advisory board of the U.S. Chamber of Commerce after serving in senior government roles under three U.S. Presidents. He worked in the Reagan Administration as White House Liaison to governors, statewide elected officials, state legislators, mayors and other elected officials. He was Secretary of Transportation for President George H. W. Bush and the second-longest tenured White House Chief of Staff from 2001 to 2006 under President George W. Bush.

### **Lt. Governor Dewhurst Appointees**

**Senator Bob Deuell** attended the University of North Texas, where he studied music, and later earned a degree in biology from George Mason University and his doctorate of medicine from the Medical College of Virginia. He has practiced as a board-certified family physician in Greenville for 25 years and also serves as an instructor for medical students and residents across the state.

**Senator Florence Shapiro** is chair of the Education Committee and serves on the Finance, Administration, and Transportation and Homeland Security Committees. Senator Shapiro is a former small business owner, public school teacher, city council member, and Mayor of Plano, Texas.

**Drayton McLane** has over 30 years of business experience as the founder and former chairman of

McLane Grocery Company, an \$11 billion wholesaler, and the largest distributor in the convenience store industry. McLane serves as Chairman of the McLane Group, whose interests include a number of convenience store wholesale distribution companies and several other related businesses.

**Brint Ryan** is the founder and CEO of Ryan, one of the leading tax services firms in North America. Ryan is an appointee to the Taxpayer Advisory Group, an advisory committee appointed by the Texas Comptroller of Public Accounts. Ryan is also a member of the executive committee of the board of directors of the Texas Association of Business as well as the board of directors of the Texas Taxpayers and Research Association.

### **Sub-Groups for Select Committee on Economic Development**

- Consider the benefits of consolidating state and local economic development incentives into a single statewide office or agency.
- Recommend an economic development policy for the state of Texas.

**Brint Ryan – Chair**

**Senator Florence Shapiro**

**Carlton Schwab**

- Evaluate existing economic development incentives and policies and make recommendations regarding the continuation, elimination, or modification of those incentives and policies for the 83rd Legislature.

**Carlton Schwab – Chair**

**Representative John Davis**

**Charles Matthews**

**Brint Ryan**

- Make recommendations to improve economic development policies and incentives.
- Make recommendations on whether the state should adopt new incentives to better accomplish the state's economic development policy.

**Maher Maso – Chair**

**Representative Angie Chen Button**

**Stacey Gillman Wimbish**

- Conduct a study and make recommendations regarding state and local economic development incentives.

**Andrew Card – Chair**

**Drayton McLane**

**Senator Bob Deuell**

# Overview

A growing economy provides Texans the opportunity to prosper. The overall economic climate of Texas is and should continue to be attractive to investors, businesses – large and small – workers, families, and those seeking a great quality of life. To that end, Texas’ economic development policy allows citizens to earn the highest return possible on their time spent at work and on their investments. Successful competition for targeted economic development begins at the local level, with the State providing the tools for people, businesses, and local governments to grow the economy for the benefit of all Texans.

Job growth, capital investment, low taxes, a booming economy, and migration to Texas, as exemplified by the growing exodus of California residents and businesses to Texas, are all evidence that Texas policies and incentives are working. Other states are envious of Texas’ economic climate. As Joe Henchman, from the Tax Foundation, testified, “Other states are incredibly jealous of Texas. I am constantly asked what is Texas doing that is working and how can we do it in our state?” According to recent rankings by the Tax Foundation, Texas is among the ten best states to do business.

The Select Committee on Economic Development finds that the Texas economic development policy is successful. Texas’ economic resilience during the recent recession, and especially in its aftermath, is partially attributable to the state’s commitment to a long-term policy of attracting new investment and employment and encouraging business expansion.

Competition among the states, and even among nations, is fierce and dynamic, and that to be successful no state can ignore this reality. As one committee witness testified, “You compete, or you lose.” It follows therefore, that Texas’ economic development programs should focus on competitiveness. In particular, the impact of taxation on investment in Texas compared with policies of competing states can place Texas at a competitive disadvantage. Additionally, incentives for investment and employment for which Texas has no effective competition would be of questionable value.

In light of these facts, the committee finds that attracting and retaining investment and employment that creates lasting benefits for Texans, especially when competitive out-of-state locations are available to employers, should be the primary focus of our economic development efforts.

## Select Committee’s Charge

- *Make recommendations on an economic development policy for Texas.*
- *To consider the benefits of consolidating state and local economic development incentives into an existing single statewide office or agency.*
- *Make recommendations to improve economic development policies and incentives.*
- *Make recommendations on whether the State should adopt new incentives to better accomplish the State’s economic development policy.*
- *Evaluate existing economic development incentives and policies and make recommendations regarding the continuation, elimination, or modification of those incentives and policies for the 83<sup>rd</sup> legislature.*
- *Study and make recommendations regarding state and local economic development incentives.*



# Process

The Select Committee on Economic Development convened its first meeting on September 5, 2012 in Austin, Texas, at the State Capitol. The committee listened to invited testimony from a number of industry and subject-matter experts. Afterwards, the chairman announced that the full committee would have two subsequent meetings, with invited and public testimony to accommodate any individual or group that would like to speak. He also announced the creation of four sub-groups that were tasked with gathering information related to the charges in HB 2785.

Each sub-group held numerous meetings to elicit information and recommendations from industry and trade associations, economic development professionals, small and large communities involved in economic development, and researchers who could provide insight into the economic development process. All of the testimony provided was reviewed and considered for this report.

The full, select committee held a second meeting on November 8, 2012 and listened to public and invited testimony. Each sub-group provided an update of their meetings as well.

A final meeting of the full select committee was held on December 12, 2012 to discuss sub-group findings and to allow for final public testimony. Sub-groups were asked to provide all of their findings and recommendations to **Andrew Card** so that a final report could be written.

# Findings

The sub-group chaired by **Brint Ryan** was tasked with recommending an economic development policy for the state of Texas. After hearing extensive testimony and engaging in numerous discussions, the committee finds that the goal of Texas economic development policy should be to support and assist the private sector in building a strong and diverse Texas economy.

In addition, the State's economic development policy should be:

- Strategic in nature and focus on creating a skilled workforce ready for high-paying jobs that are in high global demand.
- Results-oriented and focused on providing a limited number of highly effective programs to achieve a high return on investment for Texas with return being measured by overall economic impact and not employment alone.
- Collaborative and committed to strengthening the already strong and successful partnership between the State and local communities.
- Competitive- recognizing that competition is a key factor in maintaining Texas' competitive advantage and that increased competition among states promotes efficiency and innovation to the benefit of all citizens.

The sub-group also received comments associated with thoughts related to a consolidation of statewide and local incentive programs and heard overwhelmingly that a consolidation of such programs would not be in the best interest of the state or local communities.

The sub-group, chaired by **Maher Maso**, was tasked with making recommendations on whether the

state should adopt new incentives to better accomplish its economic development policy. The sub-group received testimony and comments regarding ways to improve economic development policies and incentives, and engaged in meaningful discussions about whether the state should adopt new incentives to better accomplish its policy goals.

Specific feedback and recommendations that emerged from the sub-group's work including the following:

- Both professional site selectors and other presenters who addressed the committee reported that Texas is slower at approving economic development projects (including Skills Development Grants) in comparison to other states. By the time prospective employers approach state officials about opportunities, they have completed considerable internal vetting and are typically down to finalist locations. Thus, improving responsiveness is critical for Texas to remain a viable candidate.
- Testimony was also provided by stakeholders related to compliance documentation associated with the Texas Enterprise Zone program. The compliance process for approved projects is complicated. Streamlining of the process to make it more business-friendly was recommended.
- Several presenters highlighted the importance of the Texas Emerging Technology Fund ("TETF") as a tool. The sub-group heard testimony that Texas is not receiving its proportionate share of venture capital that is critically important that Texas considers ways to attract and increase access to venture capital. The sub-group discussed the need for on-going adjustment to the TETF process including expanding the program to allocate funds for matching awards for venture capital investments in the State.
- Research and development (R&D) credits and technology incentives were characterized by stakeholders as key features for state competitiveness and job growth. The sub-group learned that other states, even those states that are struggling financially, are not only maintaining their R&D incentives but are also increasing them. Advocates recommend the creation of a franchise tax credit for R&D, as well as a sales tax exemption for the purchase of R&D-related equipment. The sub-group also learned that data center incentives are widespread and growing among the states as competition for the investments increase. Other than a narrowly defined Chapter 313 property tax limitation, Texas currently has neither an R&D nor a data center incentive and may be losing ground to competing states.
- Star Bonds were highlighted by stakeholders as a potential method of developing destination attractions in Texas. Star Bonds could be used in conjunction with tax increment financing for the specific purpose of financing major commercial entertainment and tourism area. In Kansas, a proposed project must be a statewide and regional destination, include an entertainment and tourism attraction, generate significant fiscal impacts, and be capable of sustainable development over time. Public benefits must exceed public costs. As a general rule, STAR Bond financing should constitute less than 50 percent of total project costs.
- Some stakeholders suggested that the Texas Economic Development Bank (Bank) should assist communities by financing infrastructure development including public utilities, facilities, or other projects that support economic development. This would be a form of gap financing to cover rural communities that are not eligible for economic development financing under current loan programs. Article III, Section 49(f) of the Texas Constitution authorizes the issuance of up to \$200 million of general obligation bond authority for infrastructure development. By amending

current law, the Bank could be appropriated bond proceeds or other available funds for infrastructure financing. Furthermore, to secure loans made by the Bank, eligible communities could issue tax anticipation notes for up to thirty years to the Bank backed by local fees and taxes.

The sub-group chaired by **Carlton Schwab** was charged with evaluating existing incentives and policies and making recommendations regarding the continuation, elimination, or modification of those incentives and policies for the 83<sup>rd</sup> Legislature. The sub-group heard testimony from numerous stakeholders who offered expertise on various incentives and economic development programs. Most stakeholders who appeared before the sub-group agreed that while there is always room for improvement, the Texas “formula” is working. As noted by Keith Phillips, of the Dallas Reserve Bank, “Past success can lead to future slowing. We have to be able to manage population growth while preserving low cost of living and doing business.” Therefore, evaluation of the success of Texas’ programs require metrics that consider investment, employment, production, water supply, affordable and reliable energy, technological leadership, workforce quality, and other relevant factors that are a product of the economic development process.

The following discussion is organized by program/incentive and includes both findings and recommendations:

**Transparency.** Support Government continued openness and transparency in all of its activities. At the same time, care must be taken not to weaken or dismantle the mechanisms that have played a critical role in the ongoing success of the state. In his testimony to the Select Committee, Economist Dr. Ray Perryman stated, “By their very nature, economic development efforts often involve the need to protect sensitive corporate information during the negotiation phase.”

**Recommendation:** The Committee supports continued Government openness and transparency.

**Chapter 313.** The sub-group heard substantial testimony in support of Chapter 313 of the Tax Code, which authorizes a temporary limitation against local school property taxes for new investment projects. Local property taxes in Texas are among the highest in the nation, especially for industrial projects and create a substantial barrier in attracting new investment and jobs. The sub-group heard from a number of companies that received the property tax limitation who stated that the incentive was critical in their decision to invest in Texas.

**Recommendation:** Extend Chapter 313 in perpetuity.

**Texas Enterprise Fund.** The Texas Enterprise Fund (“TEF”) is used to attract new businesses to Texas or to secure the expansion of existing businesses. Created in 2003, the TEF is a tool for success in Texas. Some successful ingredients of the program include the following: the requirement that there be strong local support for the project; the state’s flexibility in allocating grant funds; mandatory documentation of a significant return on the State’s investment, and, “claw-back” provisions that ensure the State may recoup its investment, with interest, in the event a business fails to fulfill its contractual obligations. After financial scrutiny and due diligence, an award is only granted if it receives *unanimous* support by the Governor, the Lieutenant Governor, and the Speaker of the House. Additionally, State agencies such as the Texas Workforce Commission, the Texas Commission on Environmental Quality, the Texas Department of Agriculture, and the Texas Comptroller’s Office provide assistance and input during the evaluation process. While some have criticized TEF, proof of the program’s success is evident in the rate of return. As of December 31, 2012 the State invested \$487 million and as a result secured 66,094 direct jobs and a combined capital investment of more than \$17 billion.

The success of the Texas Enterprise Fund has led to other states establishing similar programs. Siteselection.com described the competitive environment surrounding these types of funds in the following way:

Neighboring states without deal closing funds have felt the added pressure to remain competitive in an environment that offers fewer economic development prospects and an ever increasing emphasis on retaining and creating jobs. It wasn't long after Florida established the "Governor's Quick Action Closing Fund" in 2005 that other Southeastern states including nearby Georgia, South Carolina, and Mississippi established similar programs. After an intense lobbying effort by chambers of commerce, Oklahoma adopted a deal closing fund in 2011 that economic development officials hope will make the state more competitive with neighboring Texas. The push to implement deal closing fund incentives is not confined to the southern United States. The New Jersey state legislature recently approved Grow New Jersey, a unique deal closing fund aimed at attracting new and expanding businesses to targeted areas of the state. In contrast to the Pennsylvania "First Deal Closing Fund" (that offers small grants in the neighboring state of Pennsylvania), "Grow New Jersey" provides transferable corporate tax credits to eligible businesses.

**Recommendation:** Continue the Texas Enterprise Fund.

**Texas Emerging Technology Fund.** The purpose of the Texas Emerging Technology Fund ("TETF") is to develop and diversify the economy of Texas by: expediting innovation and commercialization of research; attracting, creating, or expanding private sector entities that will promote a substantial increase in high-quality jobs; and increasing applied technology research capabilities. TETF achieves this purpose by providing capital to startup and seed-stage technology companies, leveraging matching funds through a consortium of industries and institutes of higher education and awarding grant money to Texas research institutions to acquire world class researchers, whose work has demonstrated a commercial and applied technology focus. Bellicum Pharmaceuticals, Inc., is a TETF recipient that received a \$1.45 million award in 2007. The company is working to bring innovative cell therapies to market for patients with serious and life threatening diseases. The company is commercializing potentially lifesaving treatments and announced a \$20 million Series B financing in 2012.

The sub-group heard testimony that Texas saw a precipitous drop in the amount of venture capital funding for startup and seed-stage companies. As a result, some stakeholders recommended that the TETF renew its focus on providing services to entrepreneurs and funding university spin-outs.. As reported by PricewaterhouseCoopers/National Venture Capital Association MoneyTree(tm) Report, eight Texas companies received a total of \$4.6 million in fiscal year 2012, a 94 percent decrease from the prior fiscal year. The TETF Incentives for Commercialization awards are direct investments in private Texas-based companies, which require the company to raise additional capital to match TETF investments from private capital, including venture capital.

Since inception and as of the fiscal year 2012 (August 31, 2012) the TETF has made 171 awards to incent commercialization activities, match research dollars, and attract research talent to our public universities. These awards totaling just over \$371 million, have attracted close to \$1.7 billion in follow-on capital and funding, or about 4.5 times as much as the State's investment.

**Recommendation:** Continue the TETF with additional funding.

**Skills Development Fund.** The sub-group heard testimony that Texas employers need access to a larger pool of workers at all skill and education levels. Global competition is increasingly based on knowledge-based talent, as well as the ability to commercialize new technologies into high-growth global industries. The sub-group learned that one of Texas Workforce Commission's hallmark programs is the Skills Development Fund which provides employer-driven, customized job training for Texas-based employers. The program supports the growth and competitiveness of Texas employers by aiding employees in acquiring new skills or upgrading existing skills. A business must partner with an eligible grant applicant (community or technical colleges, the Texas Engineering Extension Service, or a community-based organization in partnership with one of these institutions) in order to qualify for a Skills Development grant. Since its creation, the grant program has helped 3,901 employers create 91,998 jobs and upgrade the skills of 194,216 incumbent workers, for a total of 286,214 workers trained.

**Recommendation:** Continue the Skills Development Fund and continue to explore ways to expedite the application process.

**Vocational Talent Development.** Texas has been successful in attracting new companies, growing small businesses into big businesses, and creating new jobs in a variety of industries. To ensure continued competitiveness and success, Texas must continue to provide employers with access to a skilled workforce prepared for the jobs of today and capable of adapting to fill the jobs of tomorrow. Accordingly, our education system should offer a relevant and rigorous curriculum for students in career and technical education fields. Students need more flexibility to enroll in career and technical education courses that reflect their individual interests and abilities. Career and technical education has been, and should continue to be, used as a way to train high school students to fill the gap between available jobs and qualified applicants. These programs are more rigorous and more applicable than the "vocational education" programs of the past. Students sit for exams that can give them industry certifications in telecommunications, electronics, computer maintenance, pharmacy technology, and many other areas.

**Recommendation:** Continue to invest in career and technical education to help develop future technical professionals for high-demand industries.

**Texas Industry Cluster Initiative.** In 2004, the Texas Governor's office identified six target industry clusters based on extensive analysis, research and input. Leading industry representatives, entrepreneurs, workforce and economic development organizations, business and trade associations and academics collaborated to create a detailed profile of the industry clusters. The Texas economic landscape has changed significantly in the eight years since the initial cluster report was released and new and emerging industry sectors should be identified for development.

**Recommendation:** Update and if necessary, modify the state's targeted industry clusters to reflect the current growth and economic landscape of Texas.

**Education.** The demand for skilled workers continues to grow as Texas' economy flourishes. Therefore, appropriate funds should be utilized to encourage the development of fast-track certification programs that use competency-based learning to help Texans quickly and affordably receive certifications in high demand industries. The sub-group received testimony from Dell Computers that a highly educated workforce is crucial to the information technology sector. Students today need to master 21st century skills such as critical thinking, problem solving, communication, collaboration, creativity, and innovation in order to meet ever-changing global

workforce needs. A 21st century curriculum that focuses on STEM (science, technology, engineering, and math), technical education, robust teacher training, and the effective use of data will ensure a workforce with critical skills.

**Recommendation:** Encourage the development of fast-track certification programs that use competency-based learning to help Texans quickly and affordably receive certifications in high demand industries.

**Small Business.** The sub-group heard from small business stakeholders, represented by the National Federation of Independent Businesses (“NFIB”), who expressed concern about several issues. Some of their proposals included the following:

- Abolish the franchise tax or phase it out over time.
- Make the \$1 million franchise tax exemption for small businesses permanent.
- Do not add new health insurance mandates since they increase costs especially in light of the federal government’s health-related policies including the Affordable Care Act.
- Lower the property tax rollback rate.
- Eliminate or lower taxes on inventory held for resale.
- Eliminate or lower taxes for equipment used in the manufacturing of products and equipment, such as desks and computers, used in normal business activities.
- Unemployment insurance benefits :
  1. Improper Benefits: Currently, the Texas Workforce Commission can recoup the improper benefits by deducting the amounts from future unemployment insurance benefits if the fraudulent claimant receives benefits. Small businesses support garnishing the wages of fraudulent recipients to recoup those lost funds. This will help protect small businesses by reducing unnecessary costs and will allow them to use these savings to hire employees or for other business development purposes.
  2. Drug Testing Unemployment Insurance Benefits Recipients: Individuals who are receiving unemployment insurance benefits must be actively seeking employment and must be “ready, willing and able” to accept suitable employment. Job applicants currently receiving unemployment benefits are not “ready” or “able” to perform a job if they test positive for an illegal substance.
  3. Waiting Week: Currently, an unemployed individual cannot receive benefits for the first week of unemployment until they have received benefits for three weeks’ worth of unemployment. This provides unemployed workers with an incentive to remain idle for three weeks to receive four weeks of benefits, leaving businesses to absorb the cost. The “waiting week” should be shifted to the end of the unemployed worker’s claim period, therefore encouraging them to return to work as soon as possible.

4. **Employment Training Investment Assessment:** This assessment should be eliminated through legislation and the collected balance should be returned to the benefit of Texas employers.

**Entrepreneurship.** The sub-group heard testimony from members of Dell's Entrepreneur-in-Residence ("EIR") program which is comprised of entrepreneurs and small businesses. Dell, along with Ingrid Vanderveldt, created the EIR program to help entrepreneurs and small businesses overcome hurdles to their success, such as regulatory hurdles, inadequate access to capital and rigid credit restrictions. To help address these issues, Dell provides entrepreneurs with access to capital through a \$100 million Dell Innovators Credit Fund for purchasing technology solutions, providing access to technology, and encouraging networking among entrepreneurs through the Dell Women's Entrepreneur Network, the Dell Founders Club, and regional networking opportunities. The sub-group learned that Dell is working on legislation that would place entrepreneurs-in-residence in State government to support and advocate for entrepreneurs.

**Recommendation:** Evaluate legislation that would place entrepreneurs-in-residence in Texas state agencies to support and advocate for entrepreneurs and small businesses.

**Rollback Tax Rate Reduction.** The sub-group heard testimony that Texas should work to reduce the property tax burden to ensure that the State remains an attractive destination for economic development. Lowering the burden of the largest tax on both businesses and homeowners will stimulate the Texas economy. As noted by the National Federation of Independent Business, the most meaningful property tax relief is to lower the rollback rate. By doing so, voters will be given a greater opportunity to curb local government spending by limiting how much tax revenue they can raise in total, thereby constraining the growth of their annual budgets. Determining the amount of property taxes owed is a two-part equation – a tax rate times a taxable value. Addressing only one part of the equation does not effectively limit the amount of taxes due because any potential benefit can be negated by simply increasing the other part of the equation. That is why other tax relief proposals, standing alone, such as appraisal caps and tax rate reductions do not prevent tax increases because they do not limit the determination of taxes due.

**Recommendation:** The Texas Legislature should consider legislation that would provide meaningful, sustainable property tax relief.

**Freeport Exemption.** According to the September 2011 Texas Aerospace & Aviation Industry Report, Texas is one of the world's most important locations for the aerospace and aviation industry. Additionally, according to the United States Census Bureau, Texas ranks in the top three nationally in aerospace and aviation manufacturing in terms of capital investments, employees, value-added per employee and value of shipments. However, the sub-group heard testimony from industry leaders that the State's inventory tax structure and related Freeport Exemption, does not adequately provide for the long lead time involved in the storage and manufacture of major aerospace components. As a result, aerospace companies in Texas are often at a significant tax disadvantage when compared to other states. For example, Arizona, Oklahoma, and several Gulf States do not tax inventory as they have specifically targeted aerospace as a growth sector. This causes companies to consider out-of-state options for storage of inventory or outsourcing of some parts of their manufacturing processes, resulting in reductions of both jobs and the supporting tax base in Texas.

**Recommendation:** The Texas Legislature should consider extending the Freeport exemption from 175 days to 365 days for aerospace companies in order to maintain Texas' competitive advantage.

**Regulatory Certainty.** In addition to financial economic incentives for businesses, numerous stakeholders testified about the important role of a reasonable and predictable regulatory and public policy environment. Companies looking to bring jobs and capital investment to Texas need to know that their investment will not be constrained through overly burdensome governmental regulation. Texas has often led the nation in creating such an environment, but can do even more. Providing a bright line of clear regulatory certainty, directly in statute, can send powerful signals to the capital markets that it is safe to invest in Texas. This will stimulate job growth and capital investment without requiring any taxpayer funding.

**Recommendation:** The Texas Legislature should strengthen Texas' regulatory environment so that it promotes economic development.

**Permitting.** The State of Texas should continue to create a more efficient and predictable environmental permitting process that maintains the State's objective to protect its natural resources while facilitating economic development. The sub-group acknowledges that regulatory competitiveness is often as important as tax competitiveness, workforce availability and other traditional dimensions when it comes to actually winning site locations. A prospective employer's anticipation of a timely and clear-cut permitting process is required for Texas to remain on the short list for expansion projects. Concerns were voiced related to the ability of Texas to competitively attract business due to the uncertainty and expense created by the threat of a contested case hearing.

**Recommendation:** The Texas Legislature should continue to create a more efficient and predictable environmental permitting process that maintains the State's objective to protect its natural resources while facilitating economic development.

**High-Cost Gas.** The sub-group heard testimony about the high-cost, gas tax incentive and the overall tax burden imposed on the oil and gas industry. The sub-group learned that the overall tax burden on the oil and gas industry is approximately five times greater than the overall tax burden imposed on the average business in Texas when considering all taxes levied. Even though the high-cost, gas tax incentive allows certain natural gas producers to pay less than the full natural gas severance tax, natural gas producers are still paying approximately four to five times more in taxes than the average business in Texas.

**Recommendation:** The Texas Legislature should continue the high-cost gas tax incentive.

**Communications Sales Tax Exemption.** The sub-group heard testimony from businesses that the demand for technology is growing exponentially and that Texas tax policies should encourage continued and expanded investment by businesses that are manufacturing and developing the State's broadband infrastructure. Currently, Texas imposes a 6.25 percent state sales and use tax on purchases of equipment required by communications companies to operate, upgrade and expand broadband and other communications networks. The sub-group learned that this practice results in tax pyramiding on the ultimate retail transaction, which increases the consumer's costs and discourages investment in foundational inputs. A study by the Broadband Tax Institute found that providing a sales tax exemption on communications network investments would result in the following economic benefits within three years: 325,000 additional new high-speed Broadband connections in Texas; 24,000 new private sector jobs paying over \$1 billion annually in salaries and wages; and \$5.4 billion in new economic activity in Texas.

**Recommendation:** The Texas Legislature should evaluate the merits of communication network investments from the State sales tax.



**New Markets Tax Credit.** The committee heard testimony about an opportunity to create a Texas tax credit initiative that mirrors what a growing number of other states and the federal government have adopted during the past decade in order to encourage access to private capital for job-creating businesses in underserved rural and urban areas. The initiative, called “New Markets,” has a proven track record in other states, and creating a Texas “New Markets” initiative could attract additional private capital investment to businesses in Texas resulting in new jobs and other economic benefits.

**Recommendation:** The Texas Legislature should evaluate the merits of implementing a New Markets Tax Credit Program in Texas.

**Texas Film Commission.** For over forty years, the Texas Film Commission has developed the State’s film and video game industry by assisting production companies in scouting beautiful Texas locations and accessing experienced production crews. The Moving Image Industry Incentive program is a popular and effective economic development and job growth tool utilized by producers engaged in live action and animated feature films, independent films, episodic television series, commercials, and video games. The sub-group heard testimony that since 2007, over 73,000 productions job opportunities were slated based on anticipated spending of over \$658 million. This equates to 9,845 full-time jobs. Currently, two episodic television series are shooting their second seasons (between ten and twenty episodes each) in Texas. Collectively, these shows will hire between 150 to 250 Texas crew members and over 3,000 cast members who will then spend between \$15 million to \$20 million in Texas.

A growing and powerful component of the program is in video game and animation production. Texas is second in the nation for video game development behind California. Video game jobs have a high average annual salary of nearly \$90,000. Additionally, many companies provide generous benefit packages to retain their top talent. Comptroller Susan Combs reported that, of those companies receiving incentive funds, video games had the lowest cost per full-time employee (\$5,332) and accounted for 45 percent of the full-time jobs created through the program between April 2009 and August 2010. Texas is well positioned to continue to create these types of jobs especially since many Texas colleges and universities offer video game development classes, which further attracts companies looking for talent.

**Recommendation:** The Texas Legislature should continue to fund the Texas Moving Image Fund to ensure its continued growth and success.

**Texas Music.** The sole incentive marketed by the Texas Music Office is the manufacturing sales tax exemption offered to producers of sound recording master tapes. The sub-group heard testimony that a program is needed that would encourage music venues to foster musical talent by presenting more live music. Such incentives could include a decrease in the Texas Alcoholic Beverage Commission (TABC) taxes for venues that present live music five or more times a week, and a sales tax exemption on the purchase of equipment used in the production of live music.

**Recommendation:** The Texas Legislature should evaluate proposals that would encourage and promote more live music in Texas.

**Texas Arts and Culture.** The arts and culture industry plays an important role in a dynamic and diversified State economy. In the last decade alone, this sector added more than 12 percent growth to our statewide economy, including millions of dollars generated locally through sales tax revenue. The arts and culture industry makes a significant contribution to sales tax revenue, tourism and

economic growth, by generating \$4.6 billion in taxable sales every year, \$290 million in State sales tax revenue, and \$150 million in local and State tourism revenue. The sub-group heard testimony that the State has the opportunity to grow the arts and culture industry by investing in the Texas Commission on the Arts (TCA) and its cultural district program. Cultural districts are special zones that the TCA designates across the State to use cultural resources and facilities to stimulate economic development and community revitalization. The districts often become focal points for generating business development, attracting tourists, stimulating cultural development, and fostering civic pride.

**Recommendation:** The Texas Legislature should consider funding opportunities for the Texas Commission on the Arts.

**Transportation Infrastructure.** It is a widely recognized that Texas' highway infrastructure is failing to keep pace with population and economic growth. According to testimony submitted by award-winning economist, Ray Perryman, traffic congestion is a growing problem, and many Texas highways are in need of substantial maintenance, expansion, or other improvements. The condition of Texas roadways affects productivity and quality of life through time lost sitting in traffic. As traffic congestion worsens, it can have a negative effect on future development across a spectrum of industries. Manufacturing firms, which need to be able to accurately plan shipment times, may be reluctant to locate in high-traffic areas. Companies employing knowledge workers may also take into consideration likely commuting times. Past studies have shown that such infrastructure investments yield about a 30 percent annual return in terms of productivity and economic activity.

**Recommendation:** The Texas Legislature should provide funding to improve Texas' transportation infrastructure.

**Water.** The committee heard testimony from Heather Harward, Executive Director of the H2O4TEXAS Coalition, who explained the importance of water to our State's economic development efforts: "Ensuring that we have an adequate supply of clean, affordable water is critical to the success of our ongoing economic development efforts. Water is the foundation upon which all economic development is built. Oil and gas production, manufacturing, agriculture, tourism – without water, all of it collapses." According to projections by the Texas Water Development Board, Texas' population is expected to increase 82 percent between the years 2010 and 2060, growing from 25.4 million to 46.3 million people. Failing to implement a water plan could result in approximately half the population experiencing a water shortage, during certain drought conditions by the year 2060. Drought conditions already cost Texas businesses and workers billions of dollars in lost income every year, and those losses could grow to \$116 billion annually (with over a million lost jobs) in the event of a water shortage. It is estimated that every one billion dollars in financial assistance provided for state water plan projects will generate \$1.75 billion in sales revenue, create \$888.8 million in state gross domestic product, add \$43.9 million in state and local tax receipts, and create or support nearly 13,077 jobs across the State.

**Recommendation:** The Texas Legislature should provide funding to begin implementation of the State Water Plan.

# Recommendations

- Continued government openness and transparency.
- Continued sharing of reports and information related to state incentive programs.
- Streamline the tax refund and rebate processes.
- Continue the Skills Development Fund.
- Continue to invest in career and technical education to help develop future technical professionals for high-demand industries.
- Encourage the development of fast-track certification programs that use competency-based learning to help Texans quickly and affordably receive certifications in high demand industries.
- Remove the Chapter 313 expiration date.
- Continue the Texas Emerging Technology Fund with additional funding.
- Continue the Texas Enterprise Fund.
- Extend the Freeport exemption from 175 days to 365 days for aerospace companies.
- Examine Texas' competitiveness in venture capital investment.
- Provide funding to begin implementation of the State Water Plan and improve Texas' transportation infrastructure.
- Strengthen Texas' regulatory environment so that it promotes economic development.
- Create a more efficient and predictable environmental permitting process that maintains the State's objective to protect its natural resources while facilitating economic development.
- Continue the high-cost, gas tax incentive program.
- Evaluate the merits of the Communication Sales Tax Exemption proposal and the New Markets Tax Credit Program.
- Continue funding the Texas Moving Image Fund to ensure its continued growth and success.
- Consider funding opportunities for the Texas Commission on the Arts.
- Evaluate proposals that would provide tax relief for small businesses and entrepreneurs.
- Consider providing sustainable property tax relief.
- Consider revisions that allow the Governor greater flexibility in administering economic development programs where desirable opportunities do not neatly fit into existing programs.
- Authorize a statewide economic development analysis that will study future business and job growth opportunities in Texas.



## SUMMARY OF STATE INCENTIVES & PROGRAMS

- ★ Texas Enterprise Fund
- ★ Texas Emerging Technology Fund
- ★ Skills Development Fund
- ★ Texas Enterprise Zone Program
- ★ Self-Sufficiency Fund
- ★ Texas Capital Fund Infrastructure Program
- ★ Texas Capital Fund Real Estate Development Program
- ★ Texas Product/Business Funds
- ★ Texas Leverage Fund
- ★ Texas Industry Development Program
- ★ Economic Development and Diversification In-State Tuition for Employees
- ★ Chapter 380
- ★ Bonds
- ★ Defense Economic Adjustment Assistance Grant Program (DEAAG)
- ★ Texas Military Value Revolving Loan Fund
- ★ Permit Assistance
- ★ Texas Economic Development Act
- ★ Moving Image Industry Incentive Program
- ★ Cancer Prevention and Research General Obligation Bonds
- ★ Renewable Energy Incentives
- ★ State Sales and Use Tax Exemptions
- ★ Ad Valorem/Property Tax Exemption
- ★ Section 108

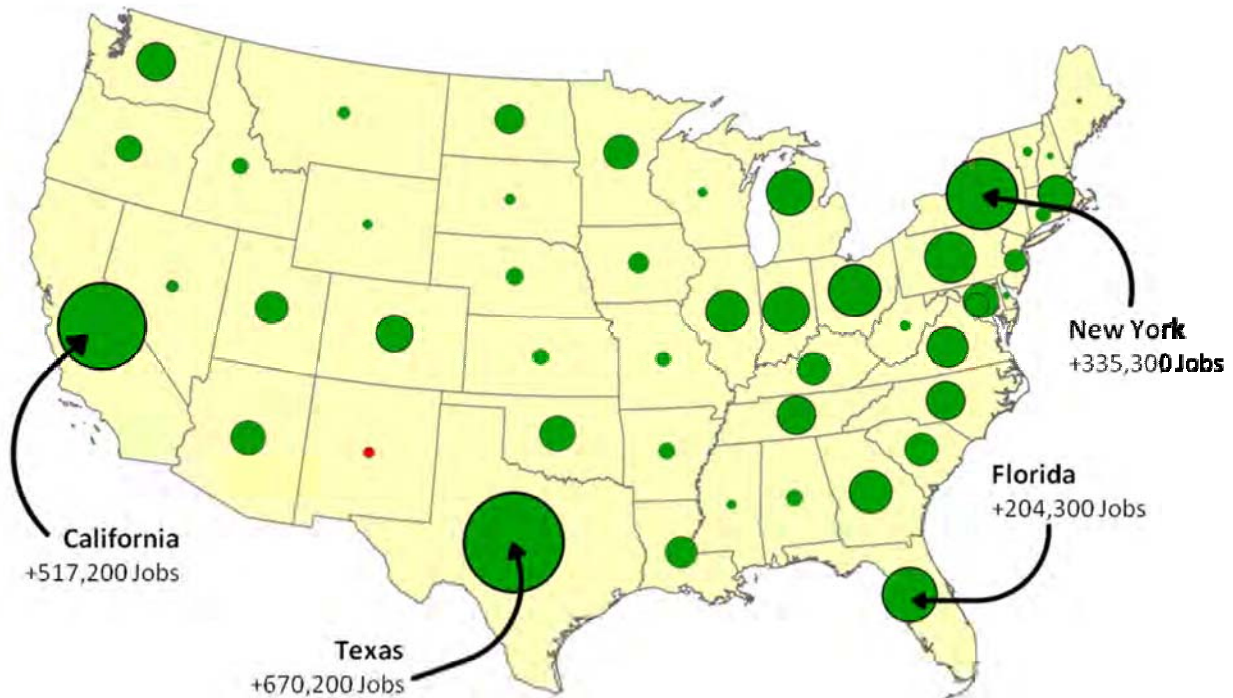
## Survey of State Deal-Closing Funds in the U.S.

December 2012

State	Amount	Name	Source of Funding
Arizona	\$25 million	Arizona Compete Fund	General Revenue
Arkansas	\$50 million for the biennium FY 2012-2013	Governor's Quick Action Closing Fund	General funds
Colorado	Averages \$1million per FY One time addition of \$4 million	Strategic Fund	General funds
Delaware	Averages \$10million per FY Balance is now \$30 million	Strategic Fund	General funds
Florida	\$42million FY 2012	Governor's Quick Action Closing Fund	General funds
Georgia	\$78.5 million FY 2012	Regional Economic Business Assistance (REBA)	Mortgage Settlement
		Georgia Economic Development, Growth, and Expansion (EDGE) Fund	General Funds
Illinois	\$5 million	Large Business Development Program (LBDP)	General obligation bonds
Iowa	\$15 million	High Quality Jobs Program	General Revenue
Kansas	New program started July 2012, so dollars unknown (Similar defunct program had \$48M/year with same funding mechanism)	Job Creation Program Fund	2% of withholding taxes
Louisiana	\$12 million  Had \$82million - all but \$28 million swept	Governor' Rapid Response Fund	General Funds
		Mega-Project Development Fund	General Funds
Maryland	\$7.2 million - 2011 report	Maryland Economic Development Assistance Authority & Fund (MEDAAF)	General funds
Michigan	State income tax credit	Michigan Economic Growth Authority (MEGA) Tax Credit	State income tax credit
Mississippi	No bonds issued in FY 2012 no money at this time	Mississippi ACE Fund	General obligation bonds
North Carolina	\$12.5million FY 2011	One North Carolina	General funds
Ohio	\$14 million per year for 2012 & 2013	Rapid Outreach Grant	General funds
	\$15 million per year for 2012 & 2013	Economic Development Contingency Grant	State's unclaimed funds
Oklahoma	\$6 million	Governor's Quick Action Closing Fund	General funds
Oregon	\$15 million	Governor's Strategic Reserve Fund	Lottery
Pennsylvania	\$20-22million FY 2011	Pennsylvania First (a grant or loan program that has replaced the Opportunity Grant Program)	General funds
South Carolina	\$25 million for FY2013	Economic Development Set-Aside Fund	Utility taxes/Mortgage
Virginia	\$23,911,055 FY 2011	Governor's Opportunity Fund	General funds

## Post-Recession Recovery

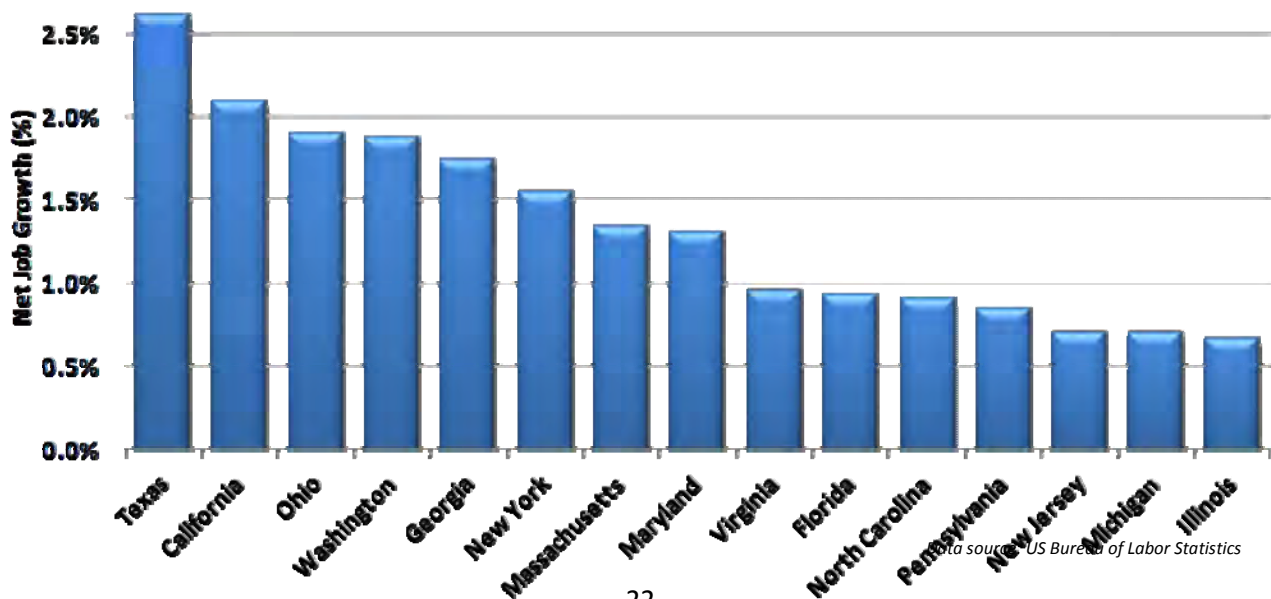
No state has added more jobs over the past 3 years than Texas.



Data source: US Bureau of Labor Statistics

## Texas Job Growth Sets The Pace

Over the past 12 months (Dec. 2011—Dec. 2012), Texas employment grew the fastest of the 15 largest states.

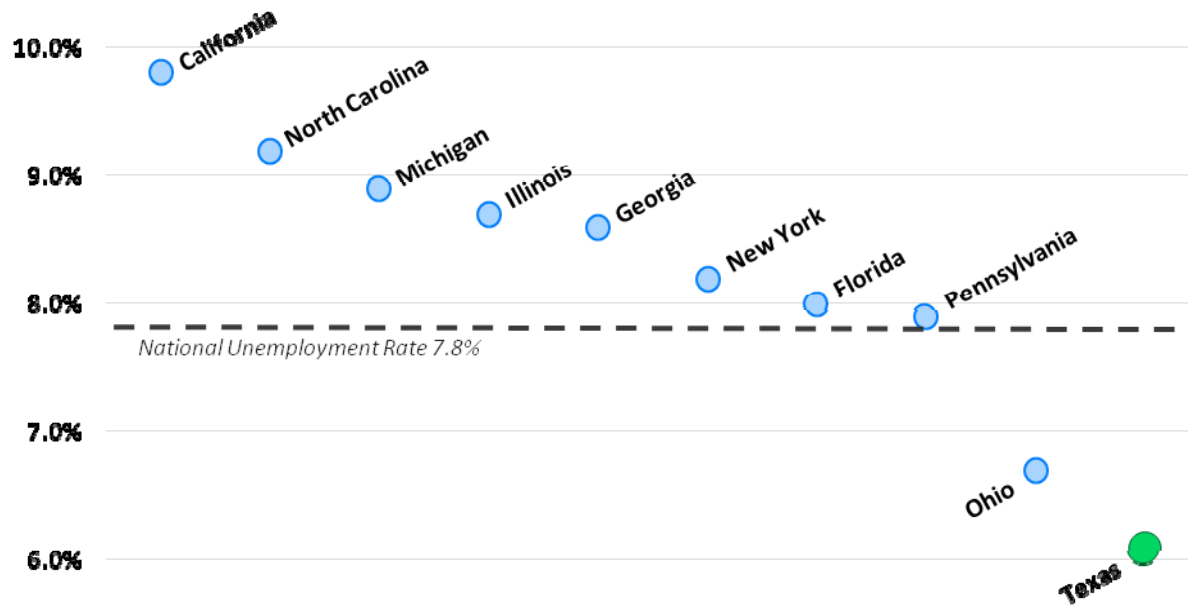


Data source: US Bureau of Labor Statistics

## State to State Comparison

### Unemployment

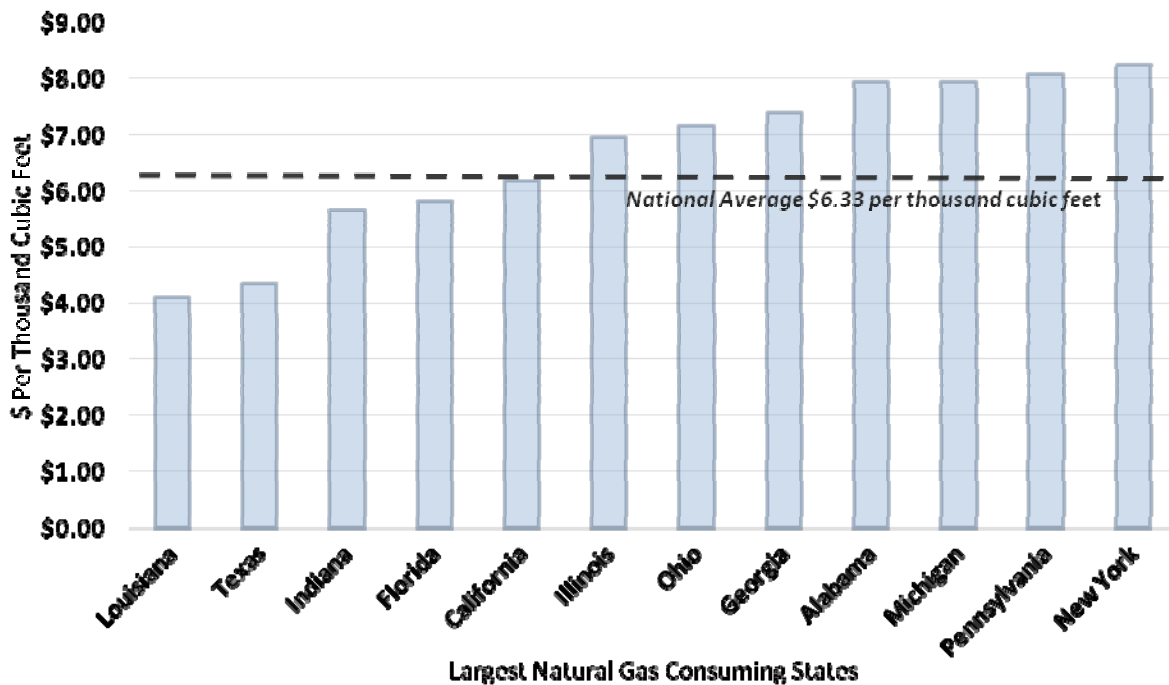
*In December 2012, Texas had the lowest unemployment rate among the ten largest states.*



Data source: US Bureau of Labor Statistics

### Natural Gas Prices

*Texas is the largest consumer of natural gas in the U.S. and boasts the second-lowest prices for end users (Industrial, Residential, Commercial, and Electric Power Generation).*



***"Texas is a state where a dream can be put to work." - Governor Rick Perry***



**"Best State  
for Business"**



**"America's Top State  
for Business 2012"**



**"2012 State of the Year"**

**FORTUNE**

**"Top State for  
Fortune 1000 HQs"**

**AREADEVELOPMENT**  
SITE AND FACILITY PLANNING

**"Top State for Business"**

**Forbes**  
.com

**Texas dominates "America's  
Fastest Growing Cities"**

**"Texas is our 2012 State of the Year because it without a doubt has the most dynamic economy of any state in the nation," Business Facilities Editor in Chief Jack Rogers said. "The job-producing engine in the Lone Star State barely sputtered during the Great Recession, bouncing back over pre-Recession levels faster than anywhere else in the U.S."**

**Business Facilities, January 2013**

**Texas dominates Forbes' "America's Fastest Growing Cities" list. Austin topped the list for the third year in a row, followed by Houston (#2), Dallas (#3), and San Antonio (#9). Robust labor markets, unemployment rates under 6% (well below the national average), no state income tax, a business-friendly regulatory environment, and strong population inflows all contributed to Texas towns' high rankings.**

**Forbes, January 2013**

**Texas tops NerdWallet.com's list of "Top Ten Cities for Job Seekers". Austin topped the list, which was based on population growth, median income, unemployment rate, and cost of living index, followed by Houston (#5), Fort Worth (#6), Dallas (#7), and San Antonio (#9).**

**NerdWallet.com, January 2013**

**Texas tops Allied Van Lines' Magnet States list for the 8th year in a row with a net relocation gain of 1,585 families in 2012.**

**SIRVA/Allied Van Lines, December 2012**

**Texas' electricity market design has been named the most successful in North America for the 6th consecutive year. The residential and commercial/industrial electric markets in Texas top the 2012 list of competitive electric markets in the Annual Baseline Assessment of Choice in Canada and the United States (ABACCUS). Texas also achieved the top rating of "Excellent" for its implementation of customer choice.**

**ABACCUS, December 2012**



**TexasWideOpenForBusiness.com**